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SUBJECT: BOSNIA: WORLD ECONOMIC CRISIS HITS VULNERABLE
SREBRENICA COMMUNITY HARD

11. (U) Summary: Emboffs visited the Srebrenica municipality to assess the impact of the world economic crisis on area businesses and municipal government. Automobile parts manufacturer, CIMOS Srebrenica, warns that a 50% decline in customer orders since September 2008 will force the plant to layoff between 50 and 60 of its 100 employees within the next month or two. The SASE lead and zinc mine recently laid off 240 of its 420 employees following a complete drop off in customer orders during the last two months. These layoffs also have an impact on local businesses dependent on ancillary sales and on the municipal revenue stream, which has already declined 40% compared to last year. Two additional factors compromise the municipality's ability to respond to the crisis: the Republika Srpska's delay in transferring to the municipality 470,000 KM in concession revenues it has already collected from area businesses and a disagreement with Tuzla Canton over the disbursement of 427,000 KM in emergency funds designated for area businesses which make up 10% of the municipal budget.

Customer Orders Cease, SASE Mine Layoffs Follow

12. (U) SASE Mine typically produces 220,000 tons of lead and zinc ore concentrate annually which is marketed and sold by its parent company, MineCo (UK). General Manager Aleksandr Petric reported that a decline in lead and zinc prices worldwide resulted in a drop off in demand for the mine's product beginning in September 2008. With customer orders ceasing completely in December 2008, the mine stopped all excavation and production and began to lay off employees gradually. Of 420 employees, only 180 are currently working on mine maintenance and preparation for new excavation. If MineCo cannot secure orders from existing or new customers by April, obtain assistance in the form of utility or other government subsidies, or restructure their existing debt, the mine will be forced to further reduce its workforce. Having already cut its operating costs to a minimum, the mine will be able to survive only until the end of this year if circumstances do not change.

CIMOS Employee Furloughs Will Not Prevent Layoffs Much Longer

13. (U) Slovenian auto parts manufacturer CIMOS has operated a manufacturing plant, CIMOS SREBRENICA d.o.o., in Srebrenica/Potocari since June 2005. The 1 million Euro investment CIMOS made in the plant represents the largest and most successful foreign investment in the Srebrenica municipality. While in the long run CIMOS is well positioned to expand its operations (e.g., by pursuing supply contracts

with the Fiat automobile plant in southern Serbia), the plant is facing a short-term crisis. With hands shaking out of worry, the General Manager Mr. Azem Huremovic explained that, in the next month or two, he will be forced to fire 50 to 60 of his 100 employees.

14. (U) CIMOS began to experience the global automobile industry slump in September 2008 when orders for its products declined by more than 50 percent. In the last month, orders have declined 75% and management was forced to begin rolling furloughs at reduced salary levels, which will affect at least 25% of employees each month. Mr. Huremovic predicts that 2009 revenues will drop by 40% or more, and that only a cash injection or new business opportunities will save the plant. In the meantime, CIMOS is positioning itself to produce parts for manufacturers outside of the automobile industry and is currently filling one such order for a Belgian customer. While Mr. Huremovic acknowledged receiving 46,000 KM in Tuzla Canton support, he said that further support from the RS government in any form would be welcome, and cited suspension of electricity payments as an example.

Small Businesses and Municipality Impacted by SASE, CIMOS Crisis

15. (U) Local service and supplier companies, dependent on SASE Mine and CIMOS for business, are suffering as well. For example, SASE has decreased its local transactions by 70%, which amounts to a loss of 175,000 KM to local businesses. By eliminating food and transportation allowances for furloughed employees, CIMOS,s difficulties also impact the local

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economy.

16. (U) New Srebrenica Mayor Osman Suljic reported to Emboffs that the crisis facing SASE, CIMOS and other businesses has contributed to a 40% decline in municipal tax revenues when compared with the same period last year. The mayor predicts that that municipality will be required to lay off employees as early as next month and will no longer be able to meet the increasing requests for assistance to families. The mayor noted that CIMOS, one of the most profitable companies in the municipality, had been one of the largest contributors to the municipal coffers via its tax obligations.

Municipality Waiting for its Money

17. (SBU) Adding to the municipality,s budget crisis, the Republika Srpska,s Ministry of Energy owes the Municipality almost 470,000 KM in concession revenue that the RS has already collected from local businesses. Mayor Suljic requested Embassy assistance to access these funds. This is likely to be a future problem as SASE Mine has admitted to Emboffs that the mine now owes 200,000 KM in concession fees to the RS, and identified this debt as one of those it would like RS government to cancel.

18. (SBU) The municipality also has more than 427,000 KM in emergency funds sitting in its bank account, which the Tuzla Canton has earmarked for ten companies identified by the previous mayor. Mayor Suljic has appealed to the Canton for permission to apply municipal procurement practices in determining the beneficiary companies, but so far has not received it. He maintains that some companies on the list of companies specified by the Canton and previous mayor should not receive funding unless they can demonstrate their plans for expending the resources and how it will impact long-term employment. (Note: Emboffs suspect that this conflict may be driven as much by politics as a desire for increased accountability. In earlier conversations, Suljic mentioned that certain companies selected were friends of Malkic. End note) In any event, available funds are not going to CIMOS and other businesses that are clearly in need.

It Could not Happen in a More Sensitive Place

19. Comment: The loss of at least several hundred mining and manufacturing jobs as well as secondary impacts on this economy would be a serious matter anywhere in Bosnia. Each lost job will likely hurt at least one family. In this sensitive political situation in Srebrenica, it is particularly unfortunate as evidenced by the mayor's acknowledgement that the city cannot meet all of the requests for food assistance. Post will work with the Republika Srpska CRS Development Bank, other RS officials, the European Bank for Reconstruction and Development and others in the international community to try and alleviate the situation, but there is no easy alternative to export markets that have disappeared. End comment.

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